Postal Regulatory Commission
Submitted 3/1/2018 8:54:50 AM
Filing ID: 103987
Accepted 3/1/2018

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

STATUTORY REVIEW OF THE SYSTEM FOR REGULATING RATES AND CLASSES FOR MARKET-DOMINANT PRODUCTS	DOCKET NO. RM2017-3

COMMENTS OF MAILERS HUB LLC AND THE NATIONAL ASSOCIATION OF ADVERTISING DISTRIBUTORS, INC.
(March 1, 2018)

Pursuant to Order No. 4258, Mailers Hub LLC and the National Association of Advertising Distributors, Inc. submit the following comments on the above-cited docket.

I. INTRODUCTION

Mailers Hub LLC (MH) is a private subscription service providing postal- and mailing-related information, resources, and support to printers, mailing service providers, and related businesses.

The National Association of Advertising Distributors, Inc. (NAAD) is an organization of mailing service providers including a subset who also own a national residential address database.

Mailers Hub LLC is NAAD's strategic partner, providing information and representation on postal and regulatory affairs.

II. BACKGROUND AND PURPOSE OF THE ORDER

Among other things, the Postal Accountability and Enhancement Act (PAEA), enacted in December 2006, prescribed the system for regulating rates and classifications for market-dominant Postal Service products, and assigned administration of that system to the Postal Regulatory Commission ("PRC" or "the commission"), just as its predecessor organization, the Postal Rate Commission, had administered the analogous elements of the 1970 Postal Reorganization Act ("PRA"). The PAEA also stipulated that, ten years after its enactment, the PRC would conduct a review of the PAEA's ratesetting mechanism "to determine if the system is achieving the objectives" set forth in the statute (39 USC 3622(d)(3)). Should the commission find that the system is not achieving those objectives, the PAEA enables the PRC to

> "make such modification or adopt such alternative system for regulating rates and classes for market-dominant products as necessary to achieve the objectives."

Accordingly, on December 20, 2016, the commission issued Order No. 3673, establishing Docket No. RM2017-3, and initiating a two-step process: first, to conduct the required review and, second, to propose modifications to the ratesetting system as necessary based on the result of that review.

The commission completed the first step of its process on December 1, 2017, issuing Order No. 4257 to present is findings and conclusions. After summarizing the relevant requirements of the PAEA and the nine objectives that Congress intended the ratesetting process to achieve, the PRC stated that

> "After extensive review, the Commission concludes that the system achieved some of the goals of these areas, but the overall system has not achieved the objectives taking into account the factors of the PAEA."

In turn, the commission issued Order No. 4258, to begin the second step of its process, giving notice of a proposed rule to adopt

> "such modifications to existing regulations or adopt such an alternative system through new regulations that the Commission deems necessary to achieve the objectives of 39 USC 3622(b)."

III. ELEMENTS OF THE PROPOSED RULE

The major elements of the proposed rule are those that would amend nine subparts of 39 CFR 3010 that contain "the rules governing the Regulation of Rates for Market Dominant Products" implemented by the PRC. Some of the proposed revisions are editorial or organizational, others proposed for clarity or "to improve transparency," and some relate to procedural components of the ratesetting process.

These comments consider the more substantive elements of what the commission is proposing to enable the PAEA ratesetting process to better achieve its statutory objectives; those elements are:

Subpart D – Supplemental Rate Authority. The proposed rule would allow the Postal Service to seek

> "… 2 percentage points of rate authority per class of mail per calendar year for each of the first 5 full calendar years following the effective date of these rules. The rate authority must be applied, if at all, to the first generally applicable rate increase filed within a calendar year. For each of the 5 calendar years, the rate authority becomes effective on January 1 and lapses on December 31 if unused. The unused portion may not be banked for future use. ..."

Subpart E – Performance-Based Rate Authority. The proposed rule would allow the Postal Service to seek

> "… up to 1 percentage point of rate authority per class of mail per calendar year based upon the Postal Service meeting or exceeding an operational efficiency-based standard and adhering to service quality-related criteria. The Commission shall review both operational efficiency and service quality in the ACD. If the Commission determines that the requirements are met, 0.75 percentage points shall be allocated for operational efficiency, and 0.25 percentage points shall be allocated for service quality. Each determination (and allocation) is independent of the other.
>
> "The rate authority must be applied, if at all, to the first generally applicable rate increase filed within a calendar year. The rate authority becomes effective on January 1 and lapses on December 31 if unused. If unused, or if not fully used, the unused portion may not be banked for future use. ..."

Subpart F – Non-Compensatory Classes or Products.

> [Proposed § 3010.201] "… For non-compensatory products, the Postal Service shall increase the rate of the product by a minimum of 2 percentage points above the percentage increase of the class that includes the non-compensatory product. Rates for the compensatory products in the class shall be adjusted accordingly. This section does not create additional rate adjustment authority for the class."
>
> [Proposed § 3010.202] " … 2 percentage points of additional rate authority for non-compensatory classes. [T]he Postal Service [must] use all available rate setting authority when adjusting rates for non-compensatory classes. This includes all CPI, supplemental, performance-based, and banked (up to the 2-percent maximum) rate authority plus the additional 2 percentage points specified in proposed § 3010.202(a). This section applies only it the Postal Service chooses to adjust rates for the non-compensatory class. … [This] rate authority must be applied, if at all, to the first generally applicable rate increase filed within a calendar year. The rate authority becomes effective on January 1 and lapses on December 31 if unused. If unused, or if not fully used, the unused portion may not be banked for future use. ..."

Subpart I – Workshare Discounts.

> "… The percentages of avoided costs that may be passed through to a customer in the form of a workshare discount are limited, and must fall within defined bands. The percentage passed through is defined as the workshare discount offered by the Postal Service divided by the cost avoided by the Postal Service for not providing the applicable service. … Two passthrough bands are established, one for Periodicals (75 to 125 percent), and one for all other classes (85 to 115 percent). Workshare passthroughs that fall within the applicable bands are accepted without further justification. Workshare passthroughs that fall outside the applicable bands, and that do not fall within one of the exceptions discussed below, are subject to return to the Postal Service for adjustment. [Another subsection] establishes a grace period of 3 years to bring existing workshare passthroughs, and newly created future, workshare passthroughs into compliance with this subpart. …"

IV. GENERAL COMMENTS

Before offering specific comments on the subparts noted above, we believe it is essential for the commission, and commenters in general, to consider the larger picture within which evaluation of the PAEA, its ratesetting process, and the PRC's ongoing review should be set.

A. The context of the PAEA.

In the years preceding enactment of the PAEA, the Postal Service was enjoying steady growth in mail volume. The PRA's ratesetting equation essentially had two elements: the costs to run the postal system, which were largely within the Postal Service's control, and the ratepayer revenues to pay them as provided through the ratesetting process. Though ratepayers were rightly concerned that, despite PRC regulation, the ratesetting mechanism allowed the agency to pass through costs in its rates without any incentive to become more efficient or to significantly restrain those costs (including those resulting from labor agreements), mail volume seemed to grow anyway. (This seemingly permanent condition fostered cultural attitudes among postal management and the postal labor unions whose consequences persist to this day, discussion of which is not relevant to this rulemaking.)

Fiscal 2006, which ended less than three months before the PAEA was enacted, was the watershed year for USPS volume – nearly 213 billion pieces of mail, more than it would ever see again in a single year. Though there was awareness of the impact on mail volume caused by the adoption of electronic means for messaging, information, and business, the rapidity and magnitude of that impact was not well understood and, of course, the recession that would hit in 2008 was not anticipated.

Many elements of the PAEA regarding postal rates and ratesetting clearly reflected the concerns of the mailing industry, however, insofar as they applied restraint on the Postal Service's authority to raise its rates. By linking that authority to the cost of living index ("CPI"), it was felt that postal management would be forced to live within its means by seeking and implementing operational efficiencies. The PAEA's provision for allowing retained earnings further signaled an expectation that the USPS, motivated (or required) to operate more economically and efficiently, and drawing on limited resources (under CPI-capped rates) could not only cover its operating costs but actually "turn a profit."

The PAEA was developed in the years following passage of legislation (PL 108-18, April 2003) that corrected the Postal Service's liability to the Civil Service Retirement System. That correction, however, altered the anticipated inflow of revenue to the US Treasury. As a result, legislators more concerned over the federal budget than the appropriate obligations to be borne by the USPS (or the consequences to the agency's finances of imposing such obligations), advanced other legislation that imposed new financial burdens on the USPS, thus ensuring that the inflow to the US Treasury continued, albeit for another reason. The fairness of these new burdens was aggressively questioned by the mailing community and others, however, so, as iterations of what would become the PAEA were produced, those obligations were removed, ultimately in favor of a provision that would continue payments to the US Treasury instead for the purpose of prefunding future retiree health costs. Aside from the uniqueness of this provision (other federal and state agencies have similar unfunded liability challenges but have not had a similar prefunding regimen imposed), and aside from its objective prudence as a hedge against costs that ratepayers would face in the future, its primary attractiveness for some legislators was that it minimized any adverse impact on the federal budget (i.e., that it "scored" well). The PAEA was the product of a political process, and some politicians were more interested in the political value of its "score" than it its effectiveness in improving the Postal Service's operations and finances.

More relevant to the legislation's ultimate content, the prefunding provision as drafted in mid-2004 contemplated a 40-year amortization – a timeframe that was preserved in several subsequent iterations – but an amendment to the postal reform bill shortly before it was passed late in 2006 changed that, instead requiring the Postal Service to prefund $55.8 billion over a ten-year period (the usual budget horizon). Again, in the view of many observers, insertion of this relatively short timeline was motivated solely by the need to get a better "score" for the bill and to soothe budget hawks rather than because such a rapid funding process would better solve how to pay for future employee benefits.

Though the details of any deliberations are lost to history, it's widely understood that the Postal Service agreed to the prefunding requirement in order to win passage of the PAEA which, presumably, they felt offered more than offsetting improvements in other ways. Whether there was wider consideration of the feasibility of the belatedly amended prefunding mandate in the context of possible future economic circumstances – e.g., if mail volume shouldn't continue to grow – isn't known but, if such concerns were present they failed to make a difference in the final legislation. The *Congressional Record* for December 8, 2006, the day before passage of the PAEA, contains extensive congratulatory and laudatory remarks about the bill from members of Congress, with little mention of the prefunding provision and no reflection on whether the ratesetting process in the bill was adequate to enable funding of the annual payments on the accelerated timeline.

As a result, the PAEA implemented a ratesetting process, and assigned it objectives, that may have seemed reasonable when they were drafted, but there's no apparent evidence that they were re-evaluated to verify their adequacy to underwrite the belatedly amended, and significantly more aggressive, prefunding mandate. As we now know, that disconnect proved to undermine the success of the new ratesetting mechanism from the outset.

Therefore, we believe that evaluating the PAEA ratesetting process and, in light of the PRC's findings, what should be done to modify it, should to be within the context outlined above, and how the expectations of the PAEA need to be viewed under current circumstances.

B. The PAEA's expectations in light of later developments.

Because we now know more about how events over the decade from 2006 to 2016 impacted the Postal Service that was possible before that period, it seems illogical to evaluate what should be done to modify the PAEA's ratesetting process without a reasonable adaptation of that process's objectives in light of subsequent and current circumstances.

We believe that, first and foremost, perhaps the most important objective of the ratesetting process, "to ensure adequate revenues, including retained earnings, to maintain financial stability" should be set against what that process was intended to do – finance regular operations of the Postal Service and enable it to pay other mandated expenses *on the timeline that was concurrently envisioned.* We would argue that, while the revenue generation limitation represented by the CPI cap may have been sufficient to support USPS expenses when PAEA's foundations were laid, the cap's ability to enable revenue was not rethought when the prefunding timeline was belatedly shortened from forty years to ten. In turn, it's arguable that little if any attention was given to whether the CPI-capped process could generate the necessary additional revenue or, more importantly, whether postal customers would cooperate in producing it. Experience and history have shown that the result of the accelerated timeline, concurrent with the recession, has been ballooning Postal Service debt. Experience also has shown that ratepayers now are even less inclined to accept higher prices than they were in 2006 and, moreover, have adequate communications options to implement any non-mail preferences. These realities cannot be ignored.

Second, given the financial burdens on the USPS related to prefunding and other mandates and the lower level of revenue now being generated by mail usage, the statute's objective of maintaining "high quality service standards" needs to be balanced realistically against the associated costs and the availability of revenue needed to meet that objective. Moreover, both how postal services are used today compared to how they were used in 2006, and the public's perception of and need for "service" have changed. It would seem illogical to impose rates to cover costs for levels of service that the same ratepayers often no longer need or expect – or are not willing to underwrite. This is not to say that service standards should be further relaxed, that universal service should be compromised, or that current USPS service performance should not improve. Rather, while consistent and reliable service should be expected of the USPS, that needs to be balanced against the costs for such service, especially in light of shrinking mail volume, declining postage revenue, and an expanding delivery network (i.e., less mail, representing less revenue, for more delivery points).

Third, it would seem reasonable to assume that the broad purpose of the PAEA was to ensure the long-term viability of the Postal Service. Accordingly, it would be irrational to establish implementing rules that, in effect, are contrary to that purpose. Such rules would be the result, we argue, if the PAEA's ratesetting process were modified without regard to how the postal environment has changed since 2006, particularly if changes were made without adequate acknowledgment of their impact on mail volume. As persons aware of the Postal Service's business twenty years ago can attest, mail no longer "happens," ratepayers no longer complain about rate increases but send more mail anyway, and businesses and citizens have robust, ubiquitous, and inexpensive options to communicate that were far less an alternative to hard-copy mail then than they are now. These factors, we would assert, argue for moderation in measures to "fix" the ratesetting process: all that *could* be done perhaps *shouldn't* be done lest the treatment for the illness kill the patient it's supposed to save.

Accordingly, we wish to emphasize that, in commenting on the instant rulemaking – particularly how to amend the ratesetting process to enable financial stability for the USPS – we are not advocating for rate increases. As noted above, the sensitivity to price of most commercial mail users and the availability to them of alternative forms of messaging make caution essential in any consideration of higher postage rates. While the narrow assignment of the PAEA regarding the review of the ratesetting process might direct toward a conclusion that additional revenue is needed to move the Postal Service closer to financial stability, that conclusion cannot be implemented without driving away more mail volume – which would *decrease* postal revenue.

V. SPECIFIC COMMENTS

A. Subpart D – Supplemental Rate Authority.

Broadly speaking, USPS rates for market dominant products should equate, as closely as possible, to the total attributable and institutional costs related to providing the associated services, plus a degree of "retained earnings" as allowed by the PAEA. If those associated costs are scrupulously managed, revenue increases aligned to an appropriate and valid external standard (e.g., the CPI) should, barring "extraordinary or exceptional circumstances," enable the USPS to pay its controllable expenses and any other reasonable financial obligations imposed on it. Accordingly, a "supplemental" rate authority would be needed to enable coverage of costs that are themselves "supplemental," i.e., neither within postal management's control nor within a level of cost that should be included in reasonable and customary expenses. Institutional costs that are not within management's control but that are parts of its "normal" expenses include *annual* (vs. prefunding) payments into retirement plans (CSRS and FERS), health funds (FEHB), and workers compensation (OWCP); these costs are among those to be covered by rates approved by the PRC. Adding an additional $55.8 billion, payable over ten years, as was mandated by the PAEA, is not only not within management's control but, from all indications, not within the scope of what the PAEA's ratesetting mechanism was intended to underwrite.

In 2013, the USPS exercised the PAEA's provision allowing it to seek additional rate authority for "extraordinary or exceptional circumstances" to recoup revenues lost because of mail volume decreases following the 2008 recession. In some ways, the prefunding mandate is an "extraordinary or exceptional" circumstance (in the literal, though not legal sense) because it's externally-originated, obviously beyond the control of USPS management and, we would argue, fiscally irrational. Paying the $55.8 billion obligation in only a ten-year period was ambitious to expect even at the peak of USPS business; to do so now is unrealistic, but the debt remains.

The proposed "supplemental" rate authority is intended "to provide the opportunity to generate additional revenue that is sufficient, when combined with cost reductions and operational efficiency gains, to improve the financial stability of the Postal Service." However, in explaining its proposal in Order No. 4258, the commission did not differentiate between the "normal" costs of the USPS (and whether rates were sufficient to cover them) and the debt represented by the unpaid prefunding payments. Beyond that, the PRC stated that the added authority would only “close the gap between total revenue and total costs” and “put the Postal Service on the path to medium-term financial stability.” It would not appreciably ameliorate long-term USPS debt, meaning that any “improvement” in the agency’s financial situation would be limited. (For example, using total FY 2017 USPS revenue, 2% more would be about $1.4 billion; if total USPS revenue remained the same for the next five years – which is unlikely – the total revenue generated by five years of 2% “supplemental rate authority” would be about $7 billion, a small fraction of its remaining prefunding obligation and of total USPS debt.)

However, any additional revenue to be generated through significantly over-CPI rates would adversely impact mail volume and itself be contrary to the long-term viability of the Postal Service.

Therefore, a manageable “supplement” to the otherwise applicable CPI-based rate authority should be both modest, relatively permanent, and designed specifically to amortize USPS debt over a period like that proposed in the original forms of the PAEA – forty years. Such a “supplement” would be, for example, on the order of 1%-1.5%, and all revenues generated from it would be dedicated exclusively to paying down USPS debt. “Normal” operating costs, as noted above, would be paid through CPI-capped rates.

In sum, the PAEA’s ratesetting process should be allowed to function as it was originally envisioned – to cover “normal” USPS costs – which, based on history, would not include those associated with the ten-year prefunding mandate (which represents most of the Postal Service’s current debt). Those added-on costs should be what would be covered by the “supplemental” rate authority.

We would further propose that the PRC recalculate the “supplemental” authority annually. Because the total USPS liability for future retiree costs can vary over time (e.g., as interest rates or cost estimates change or as career complement decreases), the remaining liability and the payments needed to amortize it over the remainder of the amortization period should be recalculated before the start of each fiscal year to define the Postal Service’s “supplemental” rate authority for that fiscal year.

Finally, an important caveat to any “supplemental” rate authority (as proposed by the PRC or as above) would be that it would end or be modified as appropriate if Congress were to pass legislation to either relieve or reduce any existing USPS obligation.

B. Subpart E – Performance-Based Rate Authority

As the commission noted in its advisory opinion in Docket No. N2010-1, “The Postal Service cannot be permitted to degrade service in order to comply with the revenue constraints associated with the price cap. ... Thus, the price cap and the service requirements are intended to work in conjunction to ensure that cost reductions and efficiency gains are not made at the expense of service quality.”

In its Order No. 4257, the PRC observed that

> “the Commission finds that during the PAEA era the initial service standards have been reduced and the maintenance of high quality service standards has not been encouraged. At the same time, the Commission finds that the current ratemaking system has proven sufficient for purposes of holding the Postal Service accountable for its service performance.”

Aside from the ambiguity and subjectivity of whether USPS service now or in the past could be called "high-quality," it would seem that the Postal Service believed in the post-PAEA period that it had few alternatives from which significant savings could be extracted other than from the levels and forms of service it provided. Whether that was a correct conclusion for the agency, or whether the steps it took were necessary, or whether they were the best or most effective it could have taken, are all matters that can be debated now without retroactively enlightening postal management or better informing their decisions.

Moreover, it may be unrealistic to mechanically associate service quality with revenue and cost. In many ways, providing good "quality" service to customers costs the same as providing poor "quality" service; much of it has to do with employee attitudes, engagement, and discretionary effort, factors that are not linked to revenue or cost.

In addition, the natural tension between "quality service" and "efficiency" is not acknowledged by tying the two together; being "efficient," getting the most results for money spent, may not yield the "service" expected – rightly or wrongly – by a postal constituency, such as commercial mailers, rural residents, or Congress.

Incentivizing quality service is, on its face, a worthwhile idea, but if the PRC were to allow the USPS

> "up to 1 percentage point of rate authority per class of mail per calendar year based upon the Postal Service meeting or exceeding an operational efficiency-based standard and adhering to service quality-related criteria"

there would need to be a consensus definition of exactly what an "operational efficiency-based standard" and "service quality-related criteria" should be. A measure of *service* used in the past, for example, was the number of collection boxes, but the *efficiency* of collection boxes is related to the volume of mail they gather, the cost of servicing them, and the availability of other forms of mail deposit or collection. In that case, simply equating the number of boxes with *service* was misleading, just as removing some represented, of itself, *efficiency*.

Similarly, delivering mail to "cluster boxes" may be more *efficient* than delivery to the door, but many patrons would say that "cluster boxes" do not represent good *service.* Similar arguments could be made about underproducing post offices (and stations, branches, community and contract post offices, etc.), delivery service to remote areas, retail hours at post offices, the use of contract vs USPS employee resources, outsourced retail facilities (e.g., Staples), etc. Obviously, "service" is more than simply getting mail from "a" to "b" within an established period of time, just as "efficiency" is more than just cost reduction.

If the commission intends to implement a rate incentive linked to "service performance," we urge it to conduct a separate rulemaking to obtain comments on the *objective* benchmarks by which USPS "service" and "efficiency" would be measured and the *objective* criteria by which achievement of those benchmarks would be evaluated.

In addition, if a rate incentive linked to "service performance" is to be implemented, it should not be a one-way street. If performance is achieved and the associated incentive is earned, not only should it be available only once, it should be susceptible to reversal should "service performance" regress thereafter (except for reasons, in the PRC's determination, that were beyond the control of the USPS). The risk of losing additional authority is just as useful as a motivator as the possibility of gaining such authority.

C. Subpart F – Non-Compensatory Classes or Products

Most non-compensatory classes and products did not become "underwater" in a year or two or even ten; Periodicals, as a class, for example, hasn't covered its costs since the PAEA was passed.

Therefore, to Periodicals ratepayers, or ratepayers of another non-compensatory class or product, the rates they've been paying have essentially become the norm, and those rates are a cost element they consider in running the businesses that produce the associated mail. Why these classes and products are "underwater" can be debated; that they are, cannot, nor can it be debated that correction of their non-compensatory status should have been undertaken long ago. Aside from the resistance of ratepayers in those classes or for those products to accelerated rate increases to bring them to full cost coverage, the PAEA itself thwarted such efforts; the CPI cap is a two-edged sword that keeps rate increases to no more than CPI but also prevents larger rate increases to correct "underwater" classes and products.

Allowing the Postal Service two percentage points of rate authority, in addition to what the CPI or other provisions may allow, would improve cost coverage, but so would lowering the attributable costs. How the USPS processes flat-size mail (the processing category that includes almost all Periodicals class mail and, of course, Standard (USPS Marketing) Mail flats) has been a matter of controversy between mailers and the USPS for years. A variety of changes to mail preparation standards – mailpiece characteristics, address location, bundling, pallet preparation, sortation levels – have not proven to be the magic bullet, and the introduction of processing on Flats Sequencing Systems has been inconclusive as a cost reduction strategy. Given this history, it's unlikely that a scholarly examination of flat mail processing would reveal an undiscovered path to significant cost savings, and it's equally unlikely that further changes in mailing standards, or even something as drastic as abandoning the FSS in favor of previous mechanized or automated processing methods, would bring about the necessary cost reductions. The gulf between current rates and current costs is simply too great.

That cost coverage for non-compensatory classes and products needs to be brought to 100% is not debatable, but neither is the need for caution in how that's to be done. Periodicals rely on discretionary spending by subscribers; raising subscription prices risks loss of subscribers (absolutely, or to electronic alternatives) and that, in turn, depresses advertising revenues. But raising rates above the CPI level too slowly would unreasonably protract raising cost coverages to 100%. Though the price sensitivity of most non-compensatory mail will be challenged by an additional 2% per year rate increase above the CPI cap, it seems the least than can be done.

However, we recommend that the language in proposed § 3010.201 and 3010.202 be amended to *require* at least the 2% rate increase annually, even if the Postal Service does not otherwise seek a general rate change. In addition, we recommend that, when the increase is calculated at the class level, the USPS be required to develop the majority of the increase from the least efficient preparation methods and levels, i.e., those pieces with the poorest cost coverage; for example, prices for non-machinable pieces would be increased significantly more than those for automation-compatible pieces. Finally, we recommend that specific benchmarks and criteria for "efficiency" (in Subpart E, above) be developed for flat-size mail, and that the Postal Service not be allowed to exercise its additional rate authority under Subpart F if those benchmarks have not been achieved. To do otherwise would be to allow inefficient processing on non-compensatory mail to continue while allowing the consequences for that inefficiency to be offset by over-CPI rate increases.

D. Subpart I – Workshare Discounts

When worksharing first began in the 1970s, most mail processing was manual or by relatively primitive mechanization. As a result, the cost savings for the USPS were significant when a mailer's work obviated work by postal employees. Today, worksharing (presort) is required for all commercial First-Class Mail and for all forms of Periodicals and Standard (USPS Marketing) Mail; automation compatibility (barcoding) is nearly as ubiquitous; and destination entry is widely practiced by high volume mail producers. Workshare mail is the norm, and non-workshare mail (unpresorted, automation incompatible, or local entry) is the abnormal minority of the mailstream; manual distribution is limited only to mailpieces than are physically incompatible with mechanized or automated processing. Concurrently, the Postal Service's infrastructure and complement have been aligned to the near universal adoption of (or requirement for) some form worksharing.

The irony of this is that an entire industry – commercial mail production – is dependent on worksharing rates/discounts to make its mail preparation efforts profitable. Consequently, changes in worksharing rates or discounts can dramatically impact the profitability of a company, whether a printer/mailer, presorter, or logistics service provider. For the Postal Service, and in turn for the PRC, ensuring that worksharing rates and discounts do not over- or under-value the mail preparer's work is a delicate balance of cost coverage and price signaling which, if not done carefully, can result in "undesirable mailer behavior," i.e., over- or under-participation in the corresponding form of worksharing.

Ideally, allowing passthroughs in rates/discounts that equal 100% of the value of worksharing is a reasonable goal. However, ratepayers and commercial mailers will appreciate that ideal only to the extent it will benefit them; passing through 100% where only 85% may be passed through now would be welcomed, but passing through "only" 100% where 115% is passed through today would be met with strong opposition.

On balance, while moving toward the 100% ideal should be pursued, doing so should be done only when "desirable mail behavior" can be maintained, not simply to reach an attractive target. In addition, if the ideal is worth pursuing on its merits, then the effort should be applied over a longer period, with a series of targets, rather than over a three-year term. For example, the "bands" should contract by one or two percentage points every year over a ten-year period, with an eventual target range of 95%-105% for *all* mail, unless the PRC can be presented with a compelling argument why a passthrough should be more or less than the target range would allow.

Looking at it with complete objectivity, worksharing in any form, compensated at any level of passthrough, should be perpetuated only if it works – "works" being defined as enabling the production, processing, and delivery of mail at the *lowest combined cost*, which includes mailer cost, postage, and USPS cost. Worksharing should not be priced, or encouraged or discouraged by rule or rate, to perpetuate a status quo; if the value and affordability of hard-copy mail – and the companies and Postal Service built upon it – are to remain viable, protectionism cannot be expressed in worksharing discounts or rates. Postal labor wants to reduce or eliminate worksharing to preserve its members' jobs, while some mail producers want to preserve artificially high workshare discounts for their own purposes; neither is a strategy that enhances the economic viability of the Postal Service nor the affordability of hard-copy mail, especially when the *total combined cost* to the ratepayer is greater than it should be as a result.

VI. CONCLUSION

We appreciate the opportunity to offer our comments on the PRC's proposed rulemaking. We realize that many sets of comments will be submitted, and that the divergence of the represented perspectives will be significant. Reconciling them to formulate a final rule will be a truly Solomonic task for the commission.

Regardless of how the rulemaking is concluded, we commend the commission for the complex and difficult work it's had to perform since December 20, 2016. The intertangled issues so easily described as the postal ratesetting process, and the underlying political, economic, and legislative subplots, belie the challenge of crafting *any* solution to the deficiencies the commission identified in its December 1 report.

If the PRC's final rule strikes a balance among the diverse and often incompatible comments it receives, such that the mailing community, the Postal Service, its labor unions, and Congressional politicians all are equally dissatisfied, that may be the best than can be done.

However, we must reiterate that, while the review mandated by the PAEA may lead to predictable conclusions about the need for changes to the ratesetting process, and while we may offer comments on how the ratesetting process could be modified to reach its statutory objectives, we still believe that implementation of those potential remedies in the form of higher postage rates is unwise and, ultimately, contrary to the overarching purpose of the PAEA: a viable Postal Service.

For Mailers Hub

Leo Raymond
Managing Director

Mailers Hub LLC
108 Brafferton Blvd
Stafford VA 22554-1514

For the National Association of Advertising Distributors

Keith Judkins
Executive Director

National Association of Advertising Distributors, Inc.
10309 E 95th St N
Owasso, OK 74055-6999